

**REMARKS**

This Response is filed in reply to the Office Action dated February 11, 2005. In this Response, Applicants amend claims 10, 11, 13, 14 and 16, add new claim 25 and traverse the Examiner's rejections of claims 10-16 and 22-24. Silence with regard to any of the Examiner's rejections is not an acquiescence to such rejections. Specifically, silence with regard to Examiner's rejection of a dependent claim, when such claim depends from an independent claim that Applicants consider allowable for reasons provided herein, is not an acquiescence to such rejection of the dependent claim(s), but rather a recognition by Applicants that such previously lodged rejection is moot based on Applicants' remarks and/or amendments relative to the independent claim (that Applicants consider allowable) from which the dependent claim(s) depends. Furthermore, any cancellations of and amendments to the claims are being made solely to expedite prosecution of the instant application. Applicants reserve the option to further prosecute the same or similar claims in the instant or a subsequent application. Upon entry of the Amendment, claims 10-16 and 22-25 are pending in the present application.

Applicants note that the Examiner has not addressed Applicants' traversal of the Election/Restriction requirement. In accordance with MPEP § 821.01, "Where the initial requirement is traversed, it should be reconsidered. If, upon reconsideration, the examiner is still of the opinion that restriction is proper, it should be repeated and made final in the next Office action. In doing so, the examiner should reply to the reasons or arguments advanced by applicant in the traverse." Applicants request that the Examiner provide the suggested reply and indicate whether the restriction is made final.

The issues of the February 11, 2005 Office Action are presented below with reference to the Office Action.

**With regard to the Office Action, paragraphs entitled "Claim Rejections - 35 U.S.C. § 101":**

The Examiner rejected claims 10-16 under 35 U.S.C. § 101 contending the claimed invention is directed to non-statutory subject matter. The Examiner stated that the claims were considered in light of the "Examination Guidelines for Computer-Related Inventions" (Guidelines) and were found to be non-statutory. The Examiner contends that the invention is not implemented on a specific apparatus and therefore not directed to the technical arts, for which the Examiner provides the definition of technology as the "application of science and

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engineering to the development of machines and procedures in order to enhance or improve human conditions, or at least improve human efficiency in some respect." The Examiner further contends that the invention appears to be a series of steps performed on a computer and that it is clear that claims 10-16 are intended to be directed to the abstract method apart from the apparatus for performing the method. Applicants respectfully disagree and traverse the rejection of claims 10-16.

In a first instance, Applicants maintain that the method (or procedure) recited in claims 10-16 is in fact directed to the technological arts in that the method, at the least, improves human efficiency with respect to distributing risk among responsible parties by providing a market-based approach (*auctioning the contingent security*) to allocating the risks and costs associated with an externality (*a contingency that occurs upon a change in an objectively measurable condition*). For example, a potential cost borne by another party not part of an economic transaction, such as an external party that suffers from environmental pollution from emissions, can be distributed among the purchasers of the contingent security. In addition, according to the Guidelines, a process that performs independent physical acts, or manipulates data to achieve a practical application is to be considered statutory subject matter. At the least, claims 10 and 14 recite the physical act of *auctioning the contingent security*. As defined in *The American Heritage® Dictionary of the English Language, Fourth Edition*, Houghton Mifflin Company (2000), an auction is a "public sale in which property or items of merchandise are sold to the highest bidder". Thus, *auctioning* involves the physical act of transferring ownership (the sale of) the *contingency security coupled with the activity permit* (the property) to a purchaser (the highest bidder).

Further, the methods recited in claims 10 and 14 include manipulating data to achieve a practical application. Claim 10 recites *paying the purchaser of the contingent security or contributing to at least one payment to at least one party affected by the occurrence of the objectively measurable condition* depending respectively on whether the external *contingency does not, or does occur*. It is implicit in claim 10 that a determination (through the manipulation of data regarding the measurable condition) is made as to whether the contingency occurs. Claim 14 recites that the *contingency is evaluated by a panel of judges*. The determination or evaluation (i.e., the manipulation of data) achieves the practical application of paying the purchaser or the affected party.

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The amendments to claims 10, 11 and 14 are provided to ensure that the terms in the claims have proper antecedent basis and to remove possible confusion between a holder of the permit and a holder of the security (now referred to as a purchaser). The amendments are not deemed to be limiting amendments in that separately referring to a holder of a permit and a purchaser of a security does not provide any limitation on the holder of the permit also being the purchaser of the security. Rather, the amendments merely provide for clarity in referring to the purchaser of the security. In addition, claims 10 and 14 are amended to better describe that the method includes contributing to payments to parties when the contingency occurs. Further, claims 13 and 16 are amended to better recite listings of respective activities and contingencies to which the methods can be applied.

Based on the above, claims 10 and 14 and their respective dependent claims 11-13 and 15-16 are deemed to be statutory subject matter and Applicants respectfully request reconsideration of the rejection of claims 10-16 under 35 U.S.C. § 101. New independent claim 25 recites a method comprising, among other things, *auctioning* and *paying*, and is similarly deemed to be statutory subject matter.

With regard to the Office Action, paragraphs entitled "Claim Rejections - 35 U.S.C. § 102":

The Examiner rejected claims 10-12, 14-16 and 22-24 under 35 U.S.C. § 102(e) as being anticipated by Lange (U.S. Patent No. 6,321,212). Applicants traverse the rejection. Lange describes methods and systems for trading and investing in groups of demand-based adjustable-return contingent claims, and for establishing markets and exchanges for such claims. The Examiner contends that Lange teaches *coupling an activity permit with the contingent security, the permit authorizing the holder to engage in an activity* in that a trader can break-up or divide a multi-state investment into many separate single-state investments.

The Examiner appears to confuse a permissible act with a permit to perform that act. As provided in *Merriam-Webster's Dictionary of Law*, Merriam-Webster, Inc. (1996) and as consistent with the specification (see, e.g., page 2, line 8 and page 3, lines 6 and 7), a permit is a "written warrant or license granted by one having authority". Lange describes an activity that is permissible with respect to a multi-state investment, i.e., the breaking up of a multi-state investment into many separate single-state investments. However, Lange does not teach or describe the issuance of a permit for the activity that is *coupled* to the purchase of the contingent

security, or as recited in each of claims 10 and 14, *auctioning an activity permit coupled to a contingent security*. Lange thus does not anticipate the coupling of the purchase of the contingent security with the permit to undertake the activity as a method of incorporating the external risks (those risks faced by parties other than the party undertaking the activity for which the permit is required) into the party's decision-making. The two concepts are fundamentally different. Lange fails to anticipate claims 10 and 14 and reconsideration of the rejection is respectfully requested.

As an example of an instance where Applicants' method can be applied, a company may wish to market a new genetically-modified plant variety, but there are concerns that the use of the product could also affect nearby fields, imposing uncertain costs on neighboring farmers that were not using the product at all. To address this "externality" problem, it could be required that a permit be acquired to use the product that would be accompanied by a requirement to purchase a contingent security which pays out money if a specified damage from the genetically-modified plant variety occurs. Lange does not address such a situation.

Claims 22 and 24 each recite a *market for trading a plurality of instruments that include a security with a contingent payoff coupled to a permit to conduct a predetermined activity*. For the reasons described above with relation to claims 10 and 14, Lange fails to anticipate claims 22 and 24. In addition, with respect to claims 22 and 24, the Examiner has failed to show a teaching in Lange that describes a *security ... coupled to a permit to conduct a predetermined activity*. The figures and sections of Lange relied upon by the Examiner merely describe a central controller and software and hardware components thereof. As noted previously, the description of a permissible activity, such as the routing of requests performed by the central controller described in Lange, does not provide a teaching of *a permit to conduct the activity*. Thus, Lange fails to anticipate claims 22 and 24 and reconsideration of the rejection is respectfully requested.

Further in this regard, new claim 25 recites *coupling issuance of a permit for activity with the contingent security*. For the reasons as described with respect to claims 10 and 14, Lange does not anticipate new claim 25.

With regard to the Office Action, paragraphs entitled "Claim Rejections - 35 U.S.C. § 103":

The Examiner rejected claim 13 under 35 U.S.C. § 103(a) as being unpatentable over Lange. Claim 13 depends from claim 10 and thus the rejection is moot in view of Applicants' remarks regarding claim 10.

### CONCLUSION

Applicants consider the Response herein to be fully responsive to the referenced Office Action. Based on the above Remarks, independent claims 10, 14, 22, 24 and 25 are in condition for allowance. Claims 11-13, 15, 16 and 23 respectively depend from claims 10, 14 and 22 are allowable at least by dependency. Accordingly, allowance is requested. If there are any remaining issues or the Examiner believes that a telephone conversation with Applicants' attorney would be helpful in expediting the prosecution of this application, the Examiner is invited to call the undersigned at 617-832-1175.

Respectfully submitted,



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